



December 11, 2003

Mr. Pierce R. Homer
Deputy Secretary of Transportation, Office of the Governor
Commonwealth of Virginia
Post Office Box 1475
Richmond, Virginia 23218

Dear Pierce:

Thank you for allowing the STAR Solutions team the opportunity to provide comments regarding the issues raised at the November 14, 2003 PPTA Advisory Panel Meeting.

We have several concerns regarding interpretations of the STAR Solutions' financial plan as summarized at the November 14 meeting, and we hope that this additional information will clarify any misunderstandings. Our team would like to meet with the VDOT financial staff and PRAG to review our financial plan in greater detail. We firmly believe that the phased construction and financing plan we have offered not only complements the NEPA process, but also creates many benefits for VDOT. Further, as you also know, only the STAR Solutions' plan complies with current Virginia law.

Since that meeting, you are aware that the House Transportation and Infrastructure Committee has released its proposed transportation reauthorization bill that includes \$2 billion to initiate a pilot project to facilitate car and truck separation on freight corridors. There are also other funding categories in that legislation that could benefit I-81, including the \$17.6 billion set aside for projects of national and regional significance. As you know, the concept of car and truck separation has been widely endorsed by transportation professionals across the country. We look forward to working with you to secure these federal funds in a way that is complementary of the PPTA process.

We are also hopeful that the Advisory Panel will soon make a recommendation to the Commissioner to proceed to negotiating a comprehensive agreement with the STAR Solutions team. It is worth noting that the FHWA recently gave VDOT the authority to move forward with a selection of a team under the PPTA process before the NEPA analysis is complete. They, like you, look at the PPTA and NEPA as separate processes, so the panel should make its recommendation based on the technical and financial merit of the competing proposals.

Please feel free to contact me directly at (804) 340-0205 if you have any additional questions about these materials.

Very truly yours,

James W. Atwell
STAR Solutions Team Member

cc: Mr. Malcolm T. Kerley, P.E.
Ms. Barbara Reese



The project construction phasing plan proposed by the STAR Solutions team complements our financing schedule.

We are concerned that the 11/13/03 Evaluation did not focus on one of the fundamental strengths of our Financial Plan, compared to the other proposal. As explained in detail in Response D.3 of our November 7, 2003 Supplemental Information to the questions asked by the PPTA Advisory Panel during its October 2, 2003 meeting, our Financial Plan is constructed so that all outstanding tranches of Bonds and TIFIA Loans are secured by the projected net revenues only from the Phases that are already completed or are fully funded and guaranteed to be completed, on time and within budget, at the time of each financing. When each tranche of Toll Revenue Bonds and TIFIA Loan is issued to fully fund another Phase of our Project, Bond purchasers and the FHWA's TIFIA program are not at risk on our ability to issue additional tranches of debt in the future to complete the entire Project. For example, no revenues from the Completed Toll on Phases 2, 3 and 4 are included in the projected net revenues for the first tranche of financing. That first tranche of bonds, amounting to \$1.27 billion, when combined with the anticipated federal funds, allows the first phase of the I-81 corridor improvements to move forward as an independent project. Subsequent bond issuances, each amounting to between \$1.1 and \$2.2 billion, are specifically structured so that each project phase is independent of the others. In contrast, the first series of financing in the other proposer's financial plan appears to be predicated on the ability to collect toll revenues on the entire project, even though the completion of the entire project needs to be funded by the second series of bonds, which are issued four years after the first financing.

We also believe that breaking the project into these Phases should also make the size of the four bond issues more acceptable to the bond market.

Removal of the pavement warranty likely results in a net increase in the proposed toll on trucks.

As discussed in Response E.5 of our November 7, 2003 Supplemental Information in response to questions asked by the PPTA Advisory Panel during its October 2, 2003 meeting, removing the pavement warranty from the STAR Solutions' proposal would increase the proposed toll on trucks by approximately 10%. This is the result of the higher construction costs that would result from not taking advantage of the efficiencies in pavement design delivered by Koch and assuming that the increased maintenance costs that result from not having the warranty are funded by toll revenues. Removal of the pavement warranty would result in a reduced toll rate only if VDOT was able to fund the increased construction and pavement maintenance and rehabilitation costs from non-toll resources.

The proposal to include a non-compete clause in any comprehensive agreement is not intended to preclude future transportation improvements by VDOT, other state agencies, or local governments.

As discussed in Response E.2 of our November 7, 2003 Supplemental Information in response to the questions asked by the PPTA Advisory Panel during its October 2, 2003 meeting, the scope and nature of the non-compete clause is subject to negotiation. In that response, we noted that the non-complete clause:

- **Would not prohibit** the Commonwealth and its agencies from assisting with rail or other transportation improvements.
- **Would not prohibit** VDOT from making needed safety improvements to the region's transportation system.



The proposal to include a non-compete clause in any comprehensive agreement is not intended to preclude future transportation improvements by VDOT, other state agencies, or local governments.

- **Would not preclude** implementation of our proposed Rail Project, which we view as essential for moderating the long-haul truck volume throughout the I-81 Corridor.
- **Would not prohibit or affect** corridor localities or private railroads' ability to make improvements on their own without State assistance or involvement.
- **Would not prohibit** improvements that would divert a defined percentage of Heavy Commercial Vehicle traffic from I-81, as some organizations have mis-stated.

To address any misunderstanding that may have resulted from the 11/13/03 Financial Evaluation presented at the Advisory Panel's November 14 meeting and in subsequent media reports, **it is not the intent of the STAR Solutions team to preclude all transportation improvements made by VDOT, other state agencies, or local governments.** Specifically, we do not intend that the non-compete clause would preclude transportation improvements that are far removed from the I-81 corridor such as the Coalfields Expressway or I-95. Since KBR is the lead entity for the Coalfields Expressway, the company has no desire to do anything that would hinder the development of that important project. Improvements to other facilities, such as U.S. 29, U.S. 58, and I-73 would also only have a limited impact on I-81 since they are not viable alternatives. Instead, we merely seek a covenant that will protect bondholders from being harmed and thereby will enable the necessary toll financing for I-81 to be accomplished, just as did the covenant that VDOT granted Fluor with regards to the Pocahontas Parkway. Such a clause is standard practice in the marketplace where toll revenue bonds are utilized.

In Response E.2 on November 7, we suggested that "harm" to bondholders might be measured by evaluating a proposed improvement's potential impact on the original bond ratings through rating agency review of an updated traffic and toll feasibility study. We also stated, however, that "STAR Solutions wishes to emphasize that this is only one possible construct for the contemplated non-compete clause. Working with VDOT to further refine the financing plan, we expect that other constructs may be developed."

We continue to believe we will be able to resolve this issue with VDOT, protecting the interests of bondholders and enabling the necessary toll financing for I-81 to be accomplished. Having the ability to issue investment grade debt also reduces the toll for the users of I-81.

The issues related to Halliburton and the pre-packaged Chapter 11 filing that includes Kellogg Brown & Root are immaterial to the PPTA decision-making process and will be resolved before a Comprehensive Agreement is signed with the Commonwealth.

A number of issues were raised at the meeting regarding the financial condition of Halliburton and its subsidiary, Kellogg Brown & Root, which will serve as the sponsor of the STAR Solutions project. We believe that these issues are immaterial to the issues now before the PPTA Advisory Panel and would not impact STAR Solution's ability to deliver the project. If, however, these issues are insurmountable to the Commonwealth, then Koch Performance Roads is also in a position to serve as the project sponsor.

For the panel's information, it may be helpful to review some of the facts behind the planned pre-packaged bankruptcy of the KBR subsidiary. In December 2002, Halliburton announced that it had reached an agreement in principle that, if and when consummated, would result in a settlement of asbestos and silica personal injury claims against its subsidiaries DII Industries and Kellogg Brown & Root and their current and former subsidiaries with United States operations.



The issues related to Halliburton and the pre-packaged Chapter 11 filing that includes Kellogg Brown & Root are immaterial to the PPTA decision-making process and will be resolved before a Comprehensive Agreement is signed with the Commonwealth.

Subsequently, DII Industries and Kellogg Brown & Root entered into definitive written agreements finalizing the terms of the agreements in principle with attorneys representing more than 90% of the current asbestos claimants. Halliburton has also reached agreements in principle with 48% of current silica claimants. Halliburton's definitive agreement with the asbestos and silica claimants provides:

- Up to \$2.775 billion in cash, 59.5 million Halliburton shares (valued at \$1.4 billion using the stock price at June 30, 2003 of \$23.00) and notes with a net value expected to be less than \$100 million will be paid to one or more trusts for the benefit of current and future asbestos and silica personal injury claimants upon receiving final and non-appealable court confirmation of a plan of reorganization;
- DII Industries and Kellogg Brown & Root will retain rights to the first \$2.3 billion of any insurance proceeds with any proceeds received between \$2.3 and \$3 billion going to the trust;
- The agreement is to be implemented through a pre-packaged filing under Chapter 11 of the United States Bankruptcy Code for DII Industries, Kellogg Brown & Root and some of the subsidiaries with U. S. operations; and
- The funding of the settlements amounts would occur upon receiving a final and non-appealable court information of a plan of reorganization for DII Industries and Kellogg Brown & Root and some of the subsidiaries with U.S. operations.

Under current United States law, there is no other way for Halliburton to resolve its future asbestos liabilities other than through the bankruptcy courts. Halliburton's filing of bankruptcy for the KBR subsidiary is not driven by liquidity issues, and in fact, as was noted by VDOT, Halliburton's stock is currently trading at or near its 52-week high. It is currently expected that the bankruptcy process will be completed by sometime during either the first or second quarter of 2004. Additional information on this topic can be found at www.halliburton.com or in its standard SEC disclosure statements filed quarterly.

With regards to the potential impact the KBR pre-packaged Chapter 11 bankruptcy filing will have on the TIFIA loans, it is worth noting that the Toll Revenue Bonds and TIFIA debt will be issued by and will be the obligation of the non-profit, bankruptcy-remote, special-purpose "63-20" corporation that will be established by the STAR Solutions team, not KBR. A 63-20 financing entity is separate from all STAR Solutions team members, so the actions of the team members do not impact the entity's structure or financial stability. In fact, the very structure of the 63-20 corporation is designed to insulate it from the bankruptcy of a sponsor or other affiliated company.

The project cost included in the 11/13/03 Financial Evaluation (as presented at the November 14, 2003 PPTA Advisory Panel meeting) overstated such costs by \$936 million.

The 11/13/03 Evaluation included \$900 million in Cash Flow Notes in "Spending – Additional Financing Costs," even though the principal is later refinanced by Toll Revenue Bonds, and therefore, should not be considered additional project-related costs. The \$36 million of interest on the Cash Flow Notes, which also was included as "Spending – Additional Financing Costs," is paid for out of revenues as they are collected, and also should not be considered an additional project-related cost.



The project cost included in the 11/13/03 Financial Evaluation (as presented at the November 14, 2003 PPTA Advisory Panel meeting) overstated such costs by \$936 million.

As shown in the following table, the truer re-statement of \$9,942.9 million in total "Spending" is funded by \$9,993.8 million of "Sources," leaving the same \$50.9 million projected Cumulative Surplus at end of 2018.

Spending	Millions	
Project Construction Costs (in year of construction \$)	\$ 7,106.0	Funded by debt proceeds, toll revenues, federal earmarks and CTB allocations.
Additional Financing Costs	1,837.7	Includes capitalized interest deposits, debt service reserve deposits, bond insurance premiums, and debt costs of issuance. Excludes principal repayments of Cash Flow Notes that are funded from Bond proceeds, and all Bond, TIFIA and Cash Flow Notes principal and interest payments that are funded from net toll revenues.
Pavement Warranty	834.0	
Replacement Reserve (toll equipment)	\$ <u>165.2</u> 9,942.9	Funded by a portion of toll revenues.
Sources		
Toll Revenue Bonds	\$ 5,931.6	Par amount.
BANs/Federal TIFIA Program	1,284.6	Par amount.
Federal Earmarks	1,600.0	
Net Toll Revenue	865.4	Used for capital costs, including Project Construction Costs, Pavement Warranty and Replacement Reserve. Excludes toll revenues used for toll collection costs and debt principal and interest payments.
Investment Earnings	214.2	Exclude earnings on capitalized interest deposits.
CTB I-81 Allocations	\$ <u>98.0</u> 9,993.8	
Cumulative Surplus at end of 2018	\$ 50.9	



The proposed relationships among the 63-20 corporation and the public and private project should address VDOT concerns.

Typically, such a special-purpose entity is incorporated immediately prior to the first financing. The composition of the corporation will be developed with VDOT during the negotiation of the Comprehensive Agreement.

The 11/13/03 Evaluation incorrectly stated that a TIFIA Loan would become a parity (equal) obligation to the I-81 toll revenue bonds if the project sponsor becomes bankrupt, insolvent, or liquidates. The controlling statutory language in the 1998 Congressional authorization of the TIFIA Program is "The secured loan shall not be subordinated to the claims of any holder of project obligations in the event of bankruptcy, insolvency, or liquidation of the obligor." The federal statute defines "obligor" as "...a party primarily liable for payment of the principal of or interest on a Federal credit instrument, which party may be a corporation, partnership, joint venture, trust, or governmental entity, agency, or instrumentality." The bankruptcy-remote, special-purpose entity represented by the 63-20 corporation will be the obligor, not one of STAR Solutions' sponsors or members. Therefore, the financial condition of a project sponsor such as KBR is not relevant for purposes of this TIFIA "springing lien" provision.

In addition, the 11/13/03 Evaluation suggested that the Commonwealth's or the Commonwealth Transportation Board's own credits could be implicated in any financial difficulty of the 63-20 corporation that will be the obligor on the I-81 toll financings. We believe this nexus should not and will not exist. Although Pocahontas Parkway Association (a 63-20 corporation) is a blended component unit of the Commonwealth for *financial reporting* purposes, this does not mean that the *credit* of the Pocahontas Parkway Association and the Commonwealth are intertwined. As stated previously, such a 63-20 corporation is specifically established to be remote from the financial condition of all its members, which should be expected to include both the Commonwealth and private sponsors such as KBR. In its November 10, 2003 report placing the Pocahontas Parkway Association on "Watchlist" for possible downgrade, Moody's Investors Service made no mention of any actual or potential impact of the Association's financial weakness on the Commonwealth's or the CTB's credits. Instead, Moody's said it "...views VDOT's role as important to future credit quality [of the Association] and we expect that the Commonwealth will continue to support the project over the life of the bonds through the payment of O&M and costs of extraordinary maintenance, subject to appropriation."

The federal earmark is intended to be a special appropriation to Virginia that will not reduce funds available for other transportation projects in Virginia.

Similar to the funds Virginia now receives for the replacement of the Woodrow Wilson bridge, the goal of our work with Congressman Don Young, chairman of the House Transportation and Infrastructure Committee, has been to ensure that the federal earmark to facilitate the separation of cars and trucks on I-81 will be money that is in addition to the funds Virginia would otherwise receive from the federal government in the transportation reauthorization bill and thus would not reduce Virginia's apportionments under other programs.

On November 19, 2003, Chairman Young introduced the Transportation Equity Act: A Legacy for Users legislation (H.R. 3550) that authorizes \$2 billion to be appropriated from the Highway Trust Fund for dedicated truck lanes similar to what has been proposed by the STAR Solutions team. Other new initiatives in the proposal could also provide additional assistance to improve I-81.

Such earmarked funds for a dedicated truck lane demonstration program may not require state matching requirements. However, if a state match were required, the Commonwealth could utilize the existing "soft match" provisions that qualify expenditures of toll bond proceeds and toll



The federal earmark is intended to be a special appropriation to Virginia that will not reduce funds available for other transportation projects in Virginia.

revenues on project costs to satisfy the matching requirement. Given the amount of toll financing to be accomplished for our I-81 project, more than sufficient "soft match" would be available to satisfy a substantial matching requirement. Consequently, there should be no impact on funds for primary, secondary or urban construction projects across the Commonwealth.

We want to work with VDOT to ensure that any federal funds Virginia receives for separation of cars and trucks and federal approval for tolling I-81 do not adversely affect VDOT cash flow or restrict the use of Interstate Maintenance funds.

As discussed in Response E.6 of our November 7, 2003 Supplemental Information in response to questions asked by the PPTA Advisory Panel during its October 2, 2003 meeting, we believe that "FHWA will have the flexibility to provide funds to the State as required to pay for work performed" as set forth in the SEP-14 Agreement. We expect to structure the financing plan to fund expenditures that are subsequently reimbursed by FHWA. In so doing, VDOT will not need to use its own funds to front end capital costs that will later be reimbursed by federal funds.

The Interstate System Reconstruction and Rehabilitation Pilot Program (Section 1216(b) of TEA-21) stipulates that "...funds apportioned for Interstate maintenance under section 104(b)(4) of title 23, United State code, may not be used on a facility for which tolls are being collected under the program." It is our understanding that participation in the 1216(b) Pilot Program would not reduce Virginia's apportionments of Interstate Maintenance funds. Therefore, to the extent that VDOT is currently using federal Interstate Maintenance funds to resurface, restore, rehabilitate, or reconstruct I-81, VDOT should be able to allocate all of its federal Interstate Maintenance funds to other Interstate corridors and re-allocate State funds to resurface, restore, rehabilitate, or reconstruct I-81 to the extent that such costs are not covered by the KPRI warranty and if I-81 toll revenues are not sufficient for this purpose. Consequently, we fail to see the "significant financial risk on the Commonwealth for addressing resurfacing, reconstruction, and restoration of the interstate and its ramps" that was identified in the 11/13/03 Evaluation.

Some toll transaction costs for Smart Tag/E-Z Pass are included in the Financial Plan.

Since many of the costs related to the implementation of E-ZPass in Virginia have yet to be determined, it is difficult at this time to estimate the amount of toll transaction costs that will be incurred as part of the STAR Solutions project. As we outlined in Response E.4 of our November 7, 2003 Supplemental Information for the Advisory Panel, this issue will be subject to negotiation with VDOT at a later time when more details are known.

The project budget proposed by the STAR Solutions team in our Financial Plan included an additional three full-time equivalent positions to support limited customer service center functions at two "satellite" customer service centers that would be co-located with the administrative offices of the toll operation to assist with opening new commercial accounts, particularly with local businesses.

We believe that most Heavy Commercial Vehicles using I-81 will already have E-ZPass transponders by 2007, when tolling is projected to begin. These users would not require the increased level of customer service staffing that would be necessary if all vehicles were tolled or if a non-transponder toll collection system were utilized. Therefore, we assumed in our Financial Plan that less staff would be required at the satellite customer service centers on an ongoing basis. The projected toll collection costs in our Financial Plan included \$225,685 fully burdened annual cost of the three assumed staff positions, commencing in 2007.



Some toll transaction costs for Smart Tag/E-Z Pass are included in the Financial Plan.

STAR Solutions expects to work with VDOT to apply this budgeted amount wherever VDOT believes it would be most beneficial. For example, if VDOT feels that it does not need all the local customer service staffing upfront, some portion of this could be applied to training call center representatives that VDOT already has under contract to provide support to customers with commercial accounts and that will be using the I-81 corridor. Likewise if VDOT would prefer to take this amount in lieu of or as part of a transaction fee, this could be arranged.

In any event, the amount of potential additional costs that are at issue is not particularly large for our Proposal, since we propose tolling only Heavy Commercial Vehicles, rather than all cars and trucks. Wilbur Smith Associates has estimated that, during the initial 15 years, there would be approximately 7-8 million annual toll transactions at the assumed toll rates used in our Financial Plan. These additional toll transactions should enable the unit transaction costs for Virginia toll agencies to be reduced from the current nine cents per toll transaction. Conservatively assuming a processing fee of 8 cents per transaction, the additional toll transaction cost, net of the \$0.23 million we have already budgeted, would be less than \$0.5 million per year. We believe this amount could be absorbed without affecting the integrity of our Financial Plan.

The assumed minimum aggregate debt coverage ratio of 1.18x to 1.21x provides sufficient flexibility to ensure the success of the financing plan. Further, our conservative financing plan, which assumed higher diversions than those we expect will occur, provides additional flexibility.

The 11/13/03 Evaluation questions whether investment grade ratings can be obtained at the level of funding proposed in our Financial Plan. The Evaluation, however, does not recognize that our Financial Plan assumes only that Toll Revenue Bonds with minimum 1.50x coverage will receive investment grade ratings and be sold to the public. This is consistent with the Federal TIFIA Program's minimum credit requirement that senior debt, *not* all debt including TIFIA loans, be investment grade. In contrast, the other financial plan assumes that all debt can be sold to the public with minimum aggregate debt coverage ratio of 1.13x. In addition, the additional debt coverage ratio assumed by the STAR Solutions team, compared to the minimum 1.13x ratio proposed by Fluor, provides additional flexibility in accomplishing the total necessary financing. We also believe that many of our financing cost estimates, particularly related to bond issuance and insurance costs, are more realistic than those presented by the competing team.

The STAR Solutions team took a conservative approach when developing the financial plan and assumed a 20-40 percent diversion rate to rail or alternative routes — even though such diversion rates may not be realistic. Therefore, because we think actual diversion is likely to be less than these amounts, additional funds could be available to support other improvements, to fund maintenance, or to reduce the Heavy Commercial Vehicle toll rate.

Finally, we also have read the Fitch Ratings November 12, 2003 Project Finance Special Report regarding toll roads and note that much of that analysis focused on issues related to new "startup standalone" toll roads, not the conversion of an existing Interstate road with existing traffic serving existing manufacturers and distribution centers. Concerns expressed in that report about overly optimistic assumptions of toll traffic and revenue generation are not directly analogous to the situation on I-81. Further, unlike many of those new toll roads and bridges, there is no time-efficient, low-cost alternative route for Heavy Commercial Vehicles to use to avoid I-81 tolls. STAR Solutions fully agrees that an investment grade traffic and revenue study (subsequently updated for each financing tranche) will be necessary to accomplish the projected amount of financing. This study should obviously include detailed analysis of the freight industry, including



The assumed minimum aggregate debt coverage ratio of 1.18x to 1.21x provides sufficient flexibility to ensure the success of the financing plan. Further, our conservative financing plan, which assumed higher diversions than those we expect will occur, provides additional flexibility.

truck, rail and air modes. However, unless proposers are compensated, we do not believe that it is appropriate for VDOT to require proposers to provide such a study, prior to the Commissioner's selection of a project for negotiation of a Comprehensive Agreement.

The letter to the FHWA regarding TIFIA was authorized by the project team and should be considered as an expression of intent by KBR as the project sponsor.

STAR Solutions is prepared to submit to USDOT a formal and detailed Letter of Interest for TIFIA credit assistance for our proposed I-81 Project. Previously, we did not consider it appropriate that we submit the formal Letter of Interest during the initial competitive stages of the PPTA evaluation process and prior to being selected by the Commonwealth to negotiate a Comprehensive Agreement.

The STAR Solutions team has put forth a proposal that shifts significant risk from the Commonwealth to the project team.

In our November 7, 2003 responses to the questions asked at the October 2, 2003 PPTA Advisory Panel meeting, the STAR Solutions team outlined several areas where the private sector should be recognized as an at-risk partner with the public sector. These areas included consideration of liquidated damages if the project were not delivered on schedule, a fixed price for the project, and the value of the warranty. Specifically, the team proposed that:

- The team assume price and construction schedule risk for each phase of the project once the project scope definition has been defined by the NEPA process and the location and design process has been advanced to a point where a competitive price can be developed without placing undue financial burden on the project. STAR Solutions is also willing to enter into a Comprehensive Agreement with VDOT that contains financial penalties in the form of limited liquidated damages that would be imposed if each phase of the project is not finished on time.
- STAR Solutions also anticipates that the Comprehensive Agreement will contain a five-year warranty on the performance of the work not otherwise covered by the pavement warranty provided by KPRI.
- STAR Solutions further demonstrates its commitment to the I-81 project by KPRI offering, subject to requisite approvals, a \$100 million revolving line of credit that can serve as a backstop for Bond debt service that is scheduled to be paid until the completion of construction of the entire project. Please note that this line of credit is specifically designed to be drawn to replenish the bond debt service reserve, even if the Toll Revenue Bonds do not at that time have an investment grade credit rating. (Such Bonds will already be outstanding but the completion of a Phase of our Project will already be funded.) In addition, repayment of the facility would be subordinated to Bond debt service payments, placing substantial financial and project risk on KPRI. The KPRI revolving line of credit should assist in achieving the initial investment grade bond ratings.
- STAR Solutions anticipates that the Comprehensive Agreement will include KBR's acceptance of design and construction responsibilities at an acceptable price and provide a performance warranty and/or guarantees at the appropriate time. To achieve that goal, KBR will supply a Halliburton Company parent company guarantee to support its performance on the engineering, procurement, construction (EPC) contract, or, if appropriate, ensure that another



The STAR Solutions team has put forth a proposal that shifts significant risk from the Commonwealth to the project team.

entity, acceptable to VDOT, supplies the necessary guarantee. In addition, for the construction phase of the project, KBR will provide, or cause to be provided, a payment and performance bond to support these guarantees naming VDOT as obligee.

- Pavement warranty shifts risks of future maintenance from VDOT to KPRI. Additionally, the \$507 million savings through the warranty approach should be viewed as an equity contribution to the project by STAR Solutions because it is only available through team member KPRI.

Comparing the toll rate on trucks on other roads to the proposed STAR Solutions toll rate on Heavy Commercial Vehicles does not appropriately demonstrate the ranking of our toll since other roads are also supported by car tolls.

The 11/13/03 Evaluation provided to the PPTA Advisory Panel, as well as comparisons in earlier submissions from the STAR Solutions team, compare the proposed I-81 toll on Heavy Commercial Vehicles to the toll levied on five-axle or heavy vehicles on other toll roads across the country. Our proposed toll is only imposed on Heavy Commercial Vehicles, while the Fluor proposal would charge all trucks and their proposal discloses an *average* toll rate on all trucks. It is also worth noting that toll rates on five-axle vehicles are often lower, though only slightly, than what is being proposed by STAR Solutions because those other toll roads also benefit from tolls paid by cars and light commercial vehicles. Those tolls reduce the amount that must be levied on Heavy Commercial Vehicles. Such tolls, however, are not allowed under current Virginia law.

Further, when comparing the proposed truck toll rates between the STAR Solutions and Fluor plans, it is worth noting that STAR Solutions' toll is based on a five-axle vehicle whereas the toll reported by the Fluor team is for an average multi-axle vehicle. According to verbal representations by members of the Fluor team, the toll rate for trucks is calculated by an $n-1(\$0.05/\text{mile})$ formula where "n" represents the number of axles. Therefore, to make an adequate comparison between the two toll rates, the Fluor proposal would need to be increased to 20 cents per mile for a standard five-axle truck, not the average rate of 17 cents per mile across all types of trucks. Further, the Fluor five-axle toll rate would increase to 23 cents in 2015 and to 26 cents in 2020.

It needs to be clarified that our assumed toll inflation rate was 2.5% after 2018, not 3.0% for the life of the project as was stated in the 11/13/03 Evaluation and during the November 14, 2003 Advisory Panel meeting.

Finally, we would like to provide one update to the Truck Toll rate table included in the 11/13/03 Evaluation for the Advisory Panel. On November 15, 2003 the Maryland Transportation Authority initiated a 20% increase on truck toll rates on the JFK Memorial Highway (I-95). This action increased the five-axle truck toll rate to 19.2 cents per mile, stated as if collected in each direction as we have proposed for I-81, even though the Maryland Turnpike tolls are actually paid only in the northbound direction.

The FHWA has previously allowed federal funds to be used for a pavement warranty.

The FHWA permitted the use of federal funds, through the issuance of tax-exempt GARVEE bonds, for the first pavement warranty used in the United States, for New Mexico 44/U.S. 550. KPRI was the lead on this project to expand and rehabilitate 120 miles of this road. This allowed the NMSHTD to use the bond proceeds to pay for the warranty (i.e. future maintenance costs).



The STAR Solutions design plan has more realistic assumptions regarding future traffic growth, thus necessitating a larger scope and a more realistic finance plan.

The fundamental question for the I-81 PPTA Advisory Panel is to determine which team has a proposed scope and the capabilities that most closely aligns with what is needed to improve I-81. The two teams have very different proposals using the same base data. STAR Solutions has provided a financially viable, long-term solution to the conditions on I-81. Our uniquely qualified team of Virginia contractors with significant experience in western Virginia is the right team for the job.